CANADA

Prices and incomes commission

Commission des prix et des revenus

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RUBBER TIRE PRICES

Prices and Incomes Commission

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FOREWORD

The Prices and Incomes Commission was established on June 19, 1969, "to inquire into and report upon the causes, processes and consequences of inflation and to inform those making current price and income decisions, the general public and the Government on how price stability may best be achieved".

Following numerous separate discussions with representatives of the Canadian business community, including the Canadian Chamber of Commerce, the Canadian Manufacturers' Association, the Retail Council of Canada and the Canadian Bankers' Association, the Commission decided to call a National Conference on Price Stability in order to obtain a consensus on a national policy to combat inflation. The conference, held in Ottawa on Feb. 9-10, was attended by senior officers of national business and farm associations, representatives of professional groups, leaders of the Canadian business community and officials of the federal and provincial governments. Those present indicated a willingness to exercise a meaningful degree of restraint in their pricing policies in 1970 and there was broad agreement that:

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(a) Business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970.

(b) More specifically, where higher prices are needed to cover higher costs, and market conditions make them feasible, business firms generally, if called upon to do so, would ensure that price increases were clearly less than the amount needed to cover the increases in costs at a normal volume of output and sales.

The complete list of agreed criteria is contained in the Closing Statement of the National Conference on Price Stability released on Feb. 10, 1970.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the federal government and all provincial governments endorsed the Commission's plan to call without delay upon business firms generally to follow the basic price restraint principle adopted by the National Conference on Price Stability. First Ministers urged all Canadians to co-operate actively in restraining price and income increases during 1970.

Provision was made at the National Conference on Price Stability for a price review procedure whereby the Prices and Incomes Commission would review price increases to determine whether they comply with the agreed criteria.

The Government of Canada and most provincial governments expressed the hope that government sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria as reported by the Commission.

RUBBER TIRE PRICES

Background

The Commission was advised in April, 1970, by Firestone Tire & Rubber Co. and Goodyear Tire & Rubber Co., and in June, 1970, by Dunlop Canada Ltd., that rising costs made it necessary for them to increase tire prices. The factors surrounding these increases were examined by the Commission.

The tire manufacturing industry in Canada consists of the following companies, all of which are subsidiaries of United States' firms, except Dunlop which is owned by British interests: Goodyear Tire & Rubber Co. of Canada Ltd.; Firestone Tire & Rubber Co. of Canada Ltd.; Uniroyal Ltd.; B.F. Goodrich Ltd.; Dunlop Canada Ltd.; Mansfield Denman and General Co. Ltd.; and, Seiberling Tire & Rubber Co. of Canada Ltd. (subsidiary of Goodyear).

Markets

Canadian production and sales of rubber tires are well in excess of $400,000,000 annually. Broadly speaking the tire market is divided into three sectors:

(1) Original equipment; (2) Private brands; and, (3) Manufacturers' outlets and authorized dealers. Original equipment sales are made to manufacturers of motor vehicles for incorporation onto new vehicles. Substantial sales of tires for replacement purposes are made to a variety of independent retail outlets which sell under their own private brand names. Such outlets include automotive specialty chains, departmental stores and oil companies. The third group consists of retail sales outlets owned or franchised by the tire manufacturers. The latter sell tires for replacement use under the manufacturer's name.

Sales and production of rubber tires in Canada have increased rapidly over the last decade. In 1959 Canadian output amounted to 8,943,000 tires. By 1969 production had increased to 19,361,000 tires. The bulk of tires are sold for replacement purposes, although the volume of original equipment sales has more than tripled since 1959. To a large extent the increase in production of original equipment tires is attributable to the auto pact.

Price Changes

Goodyear, Firestone and Dunlop have increased their wholesale list prices for certain lines of replacement tires by amounts of from one per cent to 2½. Other increases have taken place through negotiated contracts with motor vehicle manufacturers and private brand merchants. Increased revenues from all price increases in 1970 to date were considered in this review. Data pertaining solely to these three companies have been reviewed.

Elements of Cost

Roughly 40 per cent of the net sales dollar consists of materials, 30 per cent is salaries, wages and related benefits, and the balance is made up of overhead expenses, advertising, financial expenses, taxes and profits.

Cost Increases

The increases in material costs in 1970 are relatively small. The bulk of the cost increments are attributable to higher labor costs (salaries, wages and benefits) and to increases in financial costs.

Profitability

Only one tire producer, Goodyear, publishes financial results. The following figures are taken from published data or calculated therefrom.

	1965	1966	1967	1968	1969
Net Sales ($000's)	*	136,609	149,779	154,224	175,841
Net profit after tax ($000's)	2,282	4,533	4,129	172	1,232
Return on investment (gross assets) after tax	5.1%	5.8%	6.2%	3.5%	2.1%
Return on equity after tax	4.8%	8.9%	7.8%	0.3%	2.3%

* Not published.

Strikes accounted for the sharp reduction in profits in 1968. Also in 1969 a strike and the introduction of new processes disrupted production and reduced profits. It is questionable, therefore, whether 1968 and 1969 should be used as base years for Goodyear.

Dunlop and Firestone do not publish financial data but the required information was obtained from them. One of these producers has been encountering difficulties and is currently consolidating its position. The other company does not appear to have encountered disruptive

problems to the same extent as its competitors. As a consequence 1969 has been used as its base year in applying the criteria.

In recent years tire producers have been introducing new types of tires such as glass-belted, bias belted and radial ply, and have been using new fibres in certain lines. These products have involved substantial capital expenditures and the use of new technology. As mentioned, these developments have caused a number of problems which adversely affected profitability.

Application of Criteria

Goodyear's financial results to date for 1970 and forecasts of total and incremental revenues and costs for the remainder of the year indicate that net profit and return on investment will be somewhat above the depressed levels of 1969 and 1968 but will be well below those of 1966 and 1967. It is considered, therefore, that the company has met the criteria.

In the case of Firestone, financial returns, including total and incremental revenues and costs, for the first six months of the current fiscal year and forecasts for all of 1970 have been compared with

1969 financial performance. These figures indicate that Firestone will absorb more than 20 per cent of cost increments in 1970. Thus it meets the criteria.

Because of its inadequate return on investment in recent years Dunlop is within the criteria.